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FEATURED Q&A

Can the Region's Small Businesses Still Secure Loans?

Small businesses are likely to struggle during the economic recovery from the Covid-19 pandemic, Joy K. Gallup writes below. // File Photo: Peruvian Government.

Q **Credit expansion is expected to grow across most of Latin America and the Caribbean this year despite slowing economic growth, Fitch Ratings said in a note last December. However, after loan moratoriums expired at the end of last year in several countries of the region, more loan delinquencies are expected, including among loans made to small- and medium-sized enterprises (SMEs), the ratings agency added. What is the outlook for SMEs in Latin America as the region's recovery from the pandemic evolves? To what extent are SMEs in the region still able to acquire loans and how much are they being compelled to borrow at growing levels? What complications are SMEs in the region facing amid rising inflation and higher interest rates? Do nonperforming loans in the SME sector pose significant risks to the region's banks and lenders?**

A **Joy K. Gallup, partner in the Corporate Department of Paul Hastings LLP:** "SMEs, representing an outsized percentage of the businesses in Latin America and the Caribbean, are likely to struggle through the ongoing recovery from the pandemic in 2022 due to slowing economic growth and the unequal distribution of that growth. These SMEs do not contribute to GDP in proportion to their numbers. Most do not have access to traditional sources of capital, and the funding gap between their financing needs and availability in the region is very high. While Fitch Ratings states that credit losses are expected to be manageable for the region's banks, the traditional banks are not providing the bulk of the financing that SMEs need. Over the past

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Argentina's Economy Minister Urges Lawmakers to Back IMF Deal

Argentine Economy Minister Martín Guzmán said the country would face dire consequences if lawmakers reject the government's debt deal with the IMF.

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Spain's Banco Santander has started to accept tokenized commodities, such as for corn and soy, as collateral for some loans in Argentina.

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Venezuelan President Nicolás Maduro said his talks with high-ranking U.S. officials were "respectful" and "cordial."

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Maduro // Photo: @NicolasMaduro via Twitter.

POLITICAL NEWS

Venezuela's Maduro Hails Talks With U.S. as 'Respectful'

Venezuelan President Nicolás Maduro late on Monday described talks that he held over the weekend with high-ranking U.S. officials as "respectful" and "cordial," the Financial Times reported. The Biden administration sent officials including Juan Gonzalez, the senior director for Western Hemisphere affairs at the National Security Council, as well as U.S. Ambassador to Venezuela James Story, who has been based in Bogotá since 2019, the Financial Times reported. Maduro said he met with the U.S. delegation for nearly two hours at the presidential palace in Caracas. The meeting came as the Biden administration is exploring a rapprochement with Maduro's government and eying alternative oil supplies to Russia following its invasion of Ukraine and soaring oil prices. "We agreed to work on a forward-looking agenda," Maduro said late Monday in a television address, the Financial Times reported. "We'll press ahead with the conversations, the coordinations and a positive agenda for the government of the United States and the government of the Bolivarian Republic of Venezuela." The United States was the biggest buyer of oil from Venezuela until the administration of then-U.S. President Donald Trump imposed sanctions on Venezuela in 2019. The Trump administration closed the U.S. embassy in Caracas, accusing Maduro of stealing the country's presidential election the previous year. The administration of current U.S. President Joe Biden is now studying the possibility of easing the sanctions on Venezuela so that it can export more oil and reduce global dependence on oil from Russia, CNN reported, citing an unnamed person with knowledge of the matter.

ECONOMIC NEWS

Argentine Economy Minister Urges Support for IMF Deal

Argentine Economy Minister Martín Guzmán on Monday warned lawmakers of dire consequences if they reject the administration's debt renegotiation deal with the International Monetary Fund, Reuters reported. "It would generate a situation of deep exchange rate stress with inflationary and negative consequences on

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year, nonbank lenders in the region that specialize in providing SME financing experienced increasing levels of SME portfolio loan losses, in some cases jeopardizing their own viability. In Mexico, for example, more than one prominent nonbank lender is facing a significant debt restructuring or bankruptcy proceeding, increasing the risk profile of such lending. The actions taken or forecasted by many central banks to raise interest rates to combat inflation adds considerably to the pressure on SMEs seeking credit at reasonable rates. One bright spot in the nascent recovery is the accelerated growth of fintech in the region and the increased accessibility of digital finance for SMEs. To the extent that fintech allows greater access to credit for businesses that traditional lenders have historically underserved, there may be more widespread economic growth driven by SMEs throughout the region."

A **Tapen Sinha, professor of risk management at the Instituto Tecnológico Autónomo de México and professor at the University of Nottingham Business School:** "SMEs have been engines of growth in most countries around the world. Latin America is no exception. They account for 99 percent of all businesses in Latin America and the Caribbean and 67 percent of employment, according to a recent OECD report. Yet, they account for only a third of GDP—half the

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NEWS BRIEFS

Five Officials Suspended Following Soccer Match Brawl in Mexico

Authorities in Mexico's Querétaro state have suspended five officials after a weekend brawl among soccer fans left 26 people injured, three critically, the Associated Press reported Monday. Three people responsible for preparations and planning were suspended, as were police and civil defense employees, the wire service reported. The security company working at the stadium would also have its contracts canceled, said the state's interior secretary.

Peru's Castillo Faces New Impeachment Effort

Embattled Peruvian President Pedro Castillo is facing a second impeachment attempt since taking office in July, Bloomberg News reported Monday. The opposition is expected to present an impeachment motion against Castillo today, after people close to the leftist leader were investigated for corruption. Twenty-six members of Congress are needed to sign the motion, and a minimum of 52 votes would be needed to begin an impeachment debate.

Citigroup's Brazilian Unit Hires Iunes for Vice Chairman Role

Citigroup's Brazilian unit has hired Fernando Iunes, a former executive at Itaú Unibanco as its banking, capital markets and advisory (BCMA) vice chairman, Reuters reported Monday, citing a statement from Citi. In addition to serving as an executive at the investment banking unit of Itaú Unibanco, Iunes has been a board member at steel producer Gerdau and also at Banco ABC Brasil, the wire service reported. In his new role at Citi, Iunes will report to Eduardo Cruz, the bank's BCMA head for Latin America, as well as Marcelo Marangon, Citi's CEO for Brazil.

economic activity, employment and poverty," said Guzmán. The $45 billion deal to replace a failed 2018 program began moving through Congress on Monday. Opposition lawmakers have signaled support for part of the deal to refinance the country's debt to the lender, but they have threatened to oppose the economic plan that the agreement entails, Reuters reported. "Time is running out for Argentina in its negotiations with the IMF. After March, if no deal is reached or no payment made, the country would fall into arrears, with eventual serious consequences," Claudio Loser, a former head of the Western Hemisphere Department at the IMF, told the Advisor in a Q&A published Jan. 21.

THE DIALOGUE CONTINUES

What Forces Will Determine What Happens in Haiti?

Q Haitian Prime Minister Ariel Henry has called for a new round of elections, saying that a vote is the only way to solve the country's political stalemate, although he rejected proposals to transfer power to an interim government that would be in place for two years. Henry's critics say he is no longer the country's legitimate leader because the term of assassinated President Jovenel Moïse, whom Henry replaced, was to have expired on Feb. 7. Some accuse Henry of involvement in Moïse's assassination, allegations that he denies. Is Haiti more likely to hold elections, or is the installation of an interim government more plausible? What forces will determine how the controversy plays out? How likely is it that free and fair elections could take place anytime soon, and what would need to occur before then to hold a nationwide vote?

A James Morrell, executive director of the Haiti Democracy Project: "Article 149 of Haiti's Constitution says that if a president dies in office, the prime minister stays until the next presidential election. No provision ends the prime minister's term with the president's. So Ariel Henry has constitutional authority, the last remaining in Haiti. That doesn't mean he is his own man. A former president and former prime minister are violently feuding over who will be the next president, and Henry is in the former president's camp. The objective is, as always, the spoils of office. President Jovenel Moïse was assassinated because he tried to horn in on the lucre. The investigation has gone nowhere because the assassination masterminds belong to the class of 'untouchables,' an exalted group that enjoys immunity. Nor is Henry pushing an investigation that might implicate his camp. Each camp has gangs that have taken over half of the capital. Elections are impossible amid this armed feud. For starters, Henry could stack the electoral commission, now in precarious formation, in favor of his camp. That would mean the same arbitrary disqualification of candidates from the other side as occurred in 2015. On election day, the contenders would send their gangs into the voting-center courtyards to rush the doors of the polling rooms, as they did here and there in 2015. The only solution is to resend the U.N. mission, this time with executive authority, namely the power to put the top contenders in a room and not let them out until they have agreed to share power. This mission would not usurp Haitian state sovereignty. The gangs have already done that. The other course, the Biden administration's 'Haitian-led solution,' is too dreadful to contemplate. This is a scorched-earth policy hoping that the contenders will finally agree when they realize there is nothing left to fight over."

EDITOR'S NOTE: The comment above is a continuation of the Q&A published in the Feb. 18 issue of the Advisor.

BUSINESS NEWS

Santander Accepting Tokanized Collateral for Argentina Loans

Spain's Banco Santander has begun to accept tokanized commodities, such as for corn and soy, as collateral for some loans in Argentina, CoinDesk reported March 7. In February, the bank held a trial period for the loans by delivering some to Argentine farmers through a partnership with Agrotoken, a tokenization platform based in the South American country, CoinDesk reported. "This is the first time a financial services platform has used Blockchain technology and crypto assets to expand the agricultural credit market and unlock farmers' business potential," Fernando Bautista, the head of agribusiness at Santander Argentina said in a statement, the website reported. Over the next six months, Agrotoken expects approximately 1,000 farmers in Argentina to secure loans through the use of tokens based on corn, wheat and soybeans serving as collateral, according to Agrotoken's co-founder and chief technology officer, Ariel Scaliter. Santander started working with the Spanish bank seven months ago. The companies plan to launch similar tokenized loans in Brazil in June and in the United States later in 2022, CoinDesk reported, said Scaliter. Together, Argentina, Brazil and the United States make up 70 percent of global production of when, corn and soybeans, he added. In the Argentina loans, each token represents one ton of grain that a farmer has sold and sent to a grain elevator, CoinDesk reported. In February, Santander announced that it was changing its operational structure in order to help speed its digital transformation, Reuters reported. The bank's chair, Ana Botín, will oversee new tech units at the bank, PagoNxt and Digital Consumer Bank, while CEO José Antonio Álvarez will continue overseeing the bank's countries, regions and global businesses, the wire service reported.

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average seen in OECD countries. We find that in the region, there is a great deal of reluctance by the banks to lend them money, especially during economic downturns. What are the reasons behind that? A recent survey by the World Bank finds that there are many reasons behind this reluctance. First, banks find the operation of SMEs to be very opaque. They also do not have long histories of activities. The reason is simple:

> **"Banks find the operation of SMEs to be very opaque."**
> **— Tapen Sinha**

Most SMEs in the region operate in a gray zone. Some are outright illegal. Others are dubious. Moreover, most of them do not live long, so banks do not get a good sense of their operations to have enough confidence to lend them money. Relational banking has been touted as a possible solution. Banks also cite two critical reasons for lending money to the SMEs. First, bad macroeconomic conditions tend to hit the SMEs harder. Thus, in the periods of downturns and uncertainties, banks tend to lend less to the SMEs. The current situation in the region with higher-than-expected inflation and higher-than-expected interest rates is the result of bigger uncertainty with highly volatile prices for commodities, which are a lifeline for the region. Covid has devastated tourism. In the absence of clearly defined property rights, many SMEs have difficulties in demonstrating clearly defined collateral. Some central banks in the region have tried to help in some special sectors as guarantors. This in turn has created a problem of moral hazard."

A **Jerry Haar, professor and executive director for the Americas at the College of Business at Florida International University:** "The region will suffer from post-pandemic economic anemia for the foreseeable future. The projected 2022 growth rate of 6.3 percent merely reflects a bounce back from the bottom of 2020-2021. Less dynamic external demand, slower trade, inflation and fiscal deficits—along with political uncertainty—will hit the region, affecting both individuals and corporations. Borrowing conditions are and will remain tight. The region's level of indebtedness, growing to 75 percent of GDP during the pandemic, will put a damper on public spending and also affect bank lending. Additionally, the terms and conditions to which borrowers will be subjected are larger firms that, for the most part, will be able to manage, such as Chile's Falabella, which posted a 2021 fourth quarter net profit of 42 percent. Comprising more than 90 percent of companies in the region, just over 45 percent of SMEs have credit from formal financial institutions. SMEs' lower- and lower-middle income customers will cut back on their purchases, including food (dining out) and entertainment, due to higher interest rates, and SMEs' operational and debt-financing costs will hurt them, as well. Colombia, Peru and Argentina have the highest nonperforming loans as a percentage of all bank loans in Latin America, all above 4 percent. But because banks are reluctant to loan to SMEs in general (they receive only 12 percent of total credit), the small number of SMEs that receive loans are very good risks due to rigorous screening."

The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at **gkuleta@thedialogue.org**.

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